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Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 IO-10 ISO-00 L-03 FRB-03 OMB-01 TAR-01

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AGRIC:GTHORBURN
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E.O. 11652: GDS

TAGS: ETRD, SZ

SUBJECT: GUIDANCE FOR US DEL ON RENEGOTIATION OF COCOA AGREEMENT.

FOR USDEL TO COCOA CONFERENCE

1. BACKGROUND: THE INTERNATIONAL COCOA AGREEMENT WILL BE RENEGOTIATED UNDER UNCTAD AUSPICES IN GENEVA SEPTEMBER 22-OCTOBER 17. PREPARATORY MEETINGS, SPONSORED BY THE INTERNATIONAL COCOA ORGANIZATION, PRODUCED FEW SUBSTANTIVE PROPOSALS FOR THE REVISION OF THE 1972 COCOA AGREEMENT. THE US PARTICIPATED IN THE PREPARATORY MEETINGS AS AN CONFIDENTIAL

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OBSERVER.

2. THE US IS NOT A MEMBER OF THE 1972 INTERNATIONAL COCOA AGREEMENT. HOWEVER, WE HAVE PARTICIPATED IN PAST COCOA

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NEGOTIATIONS. WE DID NOT JOIN THE 1972 AGREEMENT BECAUSE WE BELIEVED IT WAS OVERLY RIGID, WOULD DISTORT THE COCOA MARKET, AND ULTIMATELY COLLAPSE IF TESTED. THE 1972 AGREEMENT HAS NOT BEEN TESTED BECAUSE PRICES HAVE REMAINED WELL ABOVE THE NARROW PRICE RANGE ENVISIONED IN THE AGREEMENT. IN ANY CASE, THE US REMAINS CONVINCED THAT THE 1972 AGREEMENT IS DISADVANTAGEOUS IN ITS PRESENT FORM.

3. GUIDANCE: THE USDEL SHOULD PARTICIPATE IN THE NEGOTIATIONS IN AN ACTIVE AND CONSTRUCTIVE MANNER, CONSISTENT WITH RECENT STATEMENTS BY SECRETARY KISSINGER AND OTHER US OFFICIALS THAT WE WOULD SERIOUSLY CONSIDER COMMODITY ARRANGEMENTS ON A CASE BY CASE BASIS.THE US DEL SHOULD REITERATE OUR VIEW THAT THE PROVISIONS IN ANY COMMODITY ARRANGEMENT MUST BE TECHNICALLY FEASIBLE, FLEXIBLE, AND NON-DISRUPTIVE TO FUNDAMENTAL MARKET FORCES AND ESTABLISHED TRADE PRACTICES. THE MAJOR OBJECTIVE OF A COCOA AGREEMENT SHOULD BE TO MODERATE SWINGSIN PRICES AND PRODUCER EARNINGS AND TO ASSURE CONSUMERS OF ADEQUATE SUPPLIES AT REASONABLE PRICES.

4. THE DELEGATION SHOULD WELCOME AND PROMOTE DISCUSSION OF THE CURRENT AGREEMENT, MAKING CLEAR THE NATURE AND TECHNICAL BASIS FOR OUR OBJECTIONS TO IT. THE DEL SHOULD CALL TO THE ATTENTION OF OTHER CONSUMERS THOSE FEATURES OF THE 1972 AGREEMENT WHICH WE CONSIDER POTENTIALLY MOST DISRUPTIVE SHOULD THEY BE IMPLEMENTED.

5. THE US DELEGATION SHOULD STATE THAT WE WOULD LIKE TO SEE A SUBSTANTIAL IMPROVEMENT OF THE PRESENT AGREEMENT WITH INCREASED EMPHASIS ON THE FREE OPERATION OF THE MARKET. THE DEL SHOULD FURTHER STATE THAT THE US IS INTERESTED IN A WORKABLE ARRANGEMENT THAT SERVES THE NEEDS OF PRODUCERS AND CONSUMERS AND THAT SOLVES THE PRINCIPAL PROBLEMS OF THE COCOA TRADE. SPECIFICALLY, THE DEL MAY SAY THAT WE BELIEVE THE PRESENT AGREEMENT CAN BE IMPROVED AND MADE MORE WORKABLE THROUGH: CONFIDENTIAL

A. ELIMINATION OF EXPORT CONTROLS, WHICH WE CONSIDER CUMBERSOME, OBTRUSIVE, DISRUPTIVE OF THE TRADE (E.G. COMPLICATING THE OPERATION OF THE FUTURES MARKET) AND ULTIMATELY CONTRARY TO THE WELFARE OF CONSUMERS AND PRODUCERS.

B. ESTABLISHMENT OF A BUFFER STOCK THAT WOULD OPERATE WITH CONSIDERABLE LATITUDE ON THE OPEN MARKET AND WHOSE PRINCIPAL PURPOSE WOULD BE TO MODERATE SWINGS IN COCOA PRICES.

C. SUBSTANTIAL WIDENING OF THE PRICE RANGE WITHIN WHICH THE BUFFER STOCK WOULD OPERATE.

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6. THE USDEL SHOULD LET OTHER CONSUMER DELEGATIONS TAKE THE LEAD IN IDENTIFYING AND DEFENDING ACCEPTABLE PRICE LEVELS. THE USDEL MAY GIVE GENERAL SUPPORT TO PRICE LEVEL CONCEPTS ADVANCED BY OTHER CONSUMERS, MAKING CLEAR THAT IT IS UNINSTRUCTED ON THIS MATTER AT THIS TIME. THE

USDEL SHOULD REPORT ANY CONSENSUS ON PRICE LEVELS AS IT EMERGES AND REQUEST GUIDANCE ON THE US POSITION. THE US DEL MAY INDICATE INFORMALLY TO OTHER CONSUMERS THAT IN OUR VIEW, THEY HAVE A GREATER STAKE IN THE PRICE LEVELS THAN WE, SINCE WE STILL HAVE THE OPTION OF NOT JOINING A NEW AGREEMENT.

7. IN ITS OPENING STATEMENT, THE USDEL SHOULD EMPHASIZE OUR INTEREST IN PURSUING SERIOUS NEGOTIATIONS TO ESTABLISH AN EFFECTIVE AGREEMENT, AND OUR HOPE THAT THE NEGOTIATIONS WILL BE SUCCESSFUL. HOWEVER, THE USDEL SHOULD ALSO STATE EXPLICITLY THAT IT CANNOT SAY AT THIS TIME WHETHER THE US WILL BE ABLE TO SIGN AN AGREEMENT AND OBTAIN THE NECESSARY RATIFICATION. THE DECISION ON US PARTICIPATION CAN ONLY BE MADE AFTER THE FINAL TEXT OF AN AGREEMENT IS AVAILABLE TO THE US GOVERNMENT FOR COMPREHENSIVE REVIEW AND CONSULTATION WITH THE CONGRESS. KISSINGER

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